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EARL BLUMENAUER

#3 The Bankruptcy Equity Act

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Background

Last month the economy generated nearly 250,000 jobs and the unemployment rate dropped to the lowest level in three years. This is good news, but too many families in Oregon are still struggling. One in five homeowners owe more on their mortgage than their home is worth and while some are scraping by to make their payments, others are so overwhelmed by debt they do not see a way out.

Bankruptcy can offer a legal means to escape from debt and get a second chance. But access to this financial relief is not equal. People with vacation homes or investment properties can have their mortgage terms reduced by a bankruptcy judge, but regular folks who live in their own homes are forced to play by different rules—bankruptcy judges aren't allowed to change mortgage terms of primary residences. Instead, banks foreclose and seize the home.

This is wrong and another example where the 1% benefits from the system while ordinary homeowners are excluded. I think we can all agree that every family who makes the difficult decision to declare bankruptcy should be allowed access to the same process as people who own second homes or investment properties. I'm introducing The Bankruptcy Equity Act to level the playing field so that all homeowners can have a fair shake.

Solution

Current bankruptcy law prohibits the modification of a primary residence mortgage, but allows modification for second homes or investment properties. The [Bankruptcy Equity Act](#) [PDF] eliminates this prohibition to bring fairness to ordinary homeowners who are struggling to make their mortgage payments on underwater homes.

This provides substantial financial relief to homeowners who cannot afford payments on the inflated value of their homes, but could make payments if their mortgage were fairly valued. It also encourages banks to seek voluntary modifications without involving the courts. Importantly, it puts the negotiating leverage in the hands of homeowners and encourages financial institutions to take greater care to ensure they are lending to only responsible borrowers.

This important legislation provides immediate financial relief to those who need it the most. It also will help stem the tidal wave of foreclosures that are devastating communities in Oregon and around the country. I hope that my colleagues will join together to bring fairness and relief to homeowners.

Every American deserves the opportunity for a fresh start. The Bankruptcy Equity Act will help level the playing field so that this can happen.

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